



OXFORD ANALYTICA

INDONESIA

FISCAL TRANSPARENCY

Country Report 2005

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5 Alfred Street
Oxford OX1 4EH

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INDONESIA



COMPLIANCE RATINGS

<i>Fiscal transparency</i>	2005	2004	2003	2002
Clarity of roles
Availability of information
Budget preparation
Accountability
Score	3.25	3.00	2.50	2.50

OUTLOOK & COMMENTARY

Indonesia has completed several major budget and institutional reforms at the Ministry of Finance, and further reforms and implementation are expected as part of the proposed tax package, the recently approved accounting standards, and the resolve of the Yudhoyono administration to tackle corruption. The IMF will conduct a Fiscal Transparency Report on the Observance of Standards and Codes (ROSC) in early 2006, which reflects the government's commitment to promoting transparency and accountability in the public sector.

Inadequate coordination of budget monitoring and record-keeping had hitherto resulted in duplication and fragmented financial information systems. The regions are expected to implement fiscal management and accountability in compliance with performance-based budgeting and government accounting standards as established by the Audit of State Financial Management and Accountability Law No. 15/2004. Although several technical and funding challenges remain, data quality is expected to improve gradually over the medium term as the IMF Government Financial Statistics Manual 2001 (GFS 2001) classification and the new Government Accounting Standard are rolled out to regional governments.

EXECUTIVE SUMMARY

3.25 Enacted

The division of budgetary responsibilities in Indonesia has recently undergone major revisions. The government has reorganised the Ministry of Finance (MoF) in order to improve its budget management and processes, in line with good international practice around its key functions. The budgetary and treasury functions have been separated. A single treasury unit responsible for both foreign and domestic debt financing has been established, and an improved computer support system was introduced to promote better transparency and accountability in financial management. In early 2005, the government also introduced an integrated budgetary system to clarify and focus government spending decisions and improve efficiency. Importantly, the routine and development budgets were combined into a single budget in mid-2005, achieving one of the main thrusts of state budgetary reorganisation within the MoF.

The government is implementing a comprehensive budget-reporting framework, whereby regions will have to report bi-annually on budget realisation. Regarding budget coordination, central and local governments have to undertake the synchronisation of planning and budgeting based on the National Development and Planning System Law No. 25/2005. Further progress is needed in the standardisation of accounting systems, and fiscal management capabilities in the regions need to be enhanced -- these vary widely from region to region. Some regional governments are still using their own accounting standards, but in June 2005 the State Audit Agency (BPK) and the central government released Government Regulation No. 24/2005 on the Government Accounting Standard. From now on, all levels of government should start compiling data in agreement with the new accounting standard and use a classification that broadly follows the IMF Government Financial Statistics Manual 2001 (GFS 2001). It is expected that the switchover to GFS 2001 should be fully implemented by January 2006.

Indonesia subscribes to the IMF Special Data Dissemination Standard (SDDS) and complies with the standards for coverage, periodicity, and timeliness of reporting central government and public sector data. Given the introduction of the GFS 2001 classification and the new regulations on the Government Accounting Standard, it is expected that a long transition period will be required to achieve full implementation. Significantly, the MoF has now established a 'Treasury Single Account', which has allowed Indonesia to consolidate its government accounts to compile a fiscal year 2004 balance sheet, cash flow statement, and a budget realisation report for the first time -- an important milestone for transparency in public finances and a boost for measures to combat corruption.

Although the State Audit Agency (BPK) is the national auditing body, the State Development Audit Agency (BPKP) -- the internal audit agency created by presidential decree during the Suharto administration -- also carries out audits on internal controls and reports directly to the president. The State Audit Law No. 15/2004 envisaged the absorption of the BPKP by the BPK, but this has not yet taken place. The line between external and internal audit is blurred, and with it, the responsibilities of the BPK and BPKP. In the past year, there has been no real progress in clarifying the role of the BPKP and its relationship with the BPK.

Indonesia's overall score has increased from 3.00 in 2004 to 3.25

1. CLARITY OF ROLES, RESPONSIBILITIES, AND OBJECTIVES



Enacted

The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.

Structure, functions and responsibilities of government

Indonesia's form of government is based on the 1945 Constitution as amended, which specifies that the state is structured as a unitary republic.¹ The constitution establishes the division of government between the executive branch, the legislative branch and the judiciary. Responsibilities of the Presidency, the People's Consultative Assembly (MPR), the State Audit Agency (BPK), the Supreme Court, the Constitutional Court, and the Judicial Commission are explained in government websites.² The MPR is entirely elected and consists of two chambers, the House of Representatives (DPR) and the Regional Representatives' Council (DPD). Previously, Indonesia's president was elected by the MPR, but under the current amendments to the constitution, the president and vice-president are jointly elected in a direct presidential election.

The relations and the division of responsibilities between the central government and Indonesia's 33 provinces (each headed by a governor) and local governments were fundamentally changed by legislation passed in 1999, in force since 2001.³ The Regional Autonomy Law No. 22/1999 assigns "authorities" rather than functions to levels of government, while Government Regulation No. 25/2000 further specifies the "authorities" of the central and provincial governments. Under these laws, the central government remains responsible for national defence, international relations, justice, security, religion, and monetary and fiscal policies.⁴ Provinces play a relatively minor role as autonomous regions, as their basic task is to coordinate local governments. Provincial governments may also, at the request of local governments, perform functions that local governments cannot yet perform. Local governments are assigned all responsibilities not expressly reserved for the central or provincial governments.

In addition, Fiscal Balancing Law No. 25/1999 dealt with fiscal decentralisation by reforming Indonesia's intergovernmental fiscal relations. As part of this ambitious programme, the government implemented a new intergovernmental fiscal framework, relying largely on a general grant rather than the earmarked grants of the past, and gave natural resource-producing regions a larger share of the resource revenues. From the beginning, a major concern in the decentralisation process has been the degree of clarity in the roles and responsibilities of the various levels of government.

In October 2004, Laws No. 22/1999 and No. 25/1999 were replaced with the new Regional Autonomy Law No. 32/2004 (revised Law No. 22/1999) and Revenue Sharing Law No. 33/2004 (revised Law No. 25/1999), respectively. These laws brought about some improvements by addressing the relationship between the central government and local administrations, and bringing more clarity to the division of responsibilities among levels of government. However, further reform has not been easy given the fact that the regions are defensive of the autonomy they have been given. Under Regional Autonomy Law No. 32/2004, the central government assumed authority to implement general policies in all sectors of the economy, whereas Law No. 22/1999 mandated that sectors -- besides five relating solely to the centre -- be decentralised. The Regional Autonomy Law did not sufficiently address the problem of clearly assigning responsibilities within sectors. The Ministry of Finance (MoF) and the Ministry of Home Affairs have faced overlaps in terms of authority in setting rules for fiscal management,

with a number of implementing regulations being contradictory. The lack of harmonisation between the Ministry of Home Affairs and the MoF was largely resolved in 2005, through the establishment of a joint taskforce to draft legal amendments.⁵ The financial accountability and reporting by central and local governments is established in the Audit of State Financial Accountability and Management Law No. 15/2004 and Government Regulation No. 24/2005 on the Government Accounting Standard.

The operating framework for provincial governments has changed too, by providing details on what the regions can do, as opposed to what they cannot do. Previously, if the central government failed to approve regulations proposed by local governments within a given time, these automatically went into law. Now, if these regulations are not approved within a given time they no longer automatically pass into law.⁶ The amendments to the decentralisation laws have meant the adoption of a 28% target for the transfer of net domestic revenues to regional and local governments, and have also reduced the scope for mismatches of revenue and expenditure assignments.⁷

Coordination and management of budgetary activities

The division of budgetary responsibilities has recently undergone major revisions.⁸ In 2004, the government reorganised the MoF in order to improve its budget management and processes, in line with good international practice around its key functions: fiscal policy, budget planning and preparation, treasury management, tax administration and customs administration. The budgetary and treasury functions have been separated. A single treasury unit responsible for both foreign and domestic debt financing has been established, and an improved computer support system was introduced to promote better transparency and accountability in financial management. Budget formulation, allocation, and fiscal balancing have been integrated under one Directorate General (DG) division. In early 2005, the government also introduced an integrated budgetary system to clarify and focus government spending decisions and improve efficiency. Importantly, the routine and development budgets were combined into a single budget in mid-2005, achieving one of the main thrusts of state budgetary reorganisation within the MoF.⁹

The State Treasury Law No. 1/2004 and the State Finance Law No. 17/2003 have significantly strengthened the legal framework for budgetary activities. The State Treasury Law provides officials at both central and local levels with detailed rules governing their management of state funds, assets, and debts. The government has to seek legislative approval for the sale of state assets, which it must conduct by tender. This is designed to reduce the opportunities for opaque asset transfers to politically connected individuals. The legislation also details penalties and sanctions for violations by state treasurers and contains clear stipulations on the settlement of government financial losses caused by mismanagement or corruption.¹⁰ Nevertheless, the IMF has noted that ‘the proliferation of extra budgetary funds, weak cash and debt management, and shortcomings in the decentralisation framework continue to hamper fiscal management.’¹¹

The main thrust of the MoF restructuring is to have two separate DGs for the planning and execution functions; that is, the DG for Budget Planning and Regional Finance and the DG for Treasury. The first brings all revenues under one division, and includes regional government budget planning and fiscal balancing. The Treasury is responsible for budget implementation under a unified national treasury system. A third DG for Fiscal Policy Analysis is still in the process of organisation. The aim of the reorganisation within the MoF is to focus on three principle functions: budget planning, budget implementation, and policy design.¹²

Under the State Finance Law, the legislature has expanded powers over fiscal affairs. In particular, Article 23 makes any government loan or grant from foreign countries or institutions subject to DPR approval. The law also enhances the power of the MoF by transferring the responsibility for preparing short- and medium-term economic development plans from the National Development Planning Board (Bappenas) to the MoF, and mandates performance-based budgeting.¹³

There is now a clearer framework covering regional borrowing. In 2004, there was a ban on all regional borrowing. With the latest amendments in 2005, regional governments may only borrow onshore funds that originate from the central government, other regional governments, banks, non-bank financial institutions and the public. Onshore borrowings from the public must be in the form of domestic bonds, which a regional government may issue upon approval from its regional legislature and the central government. Regional governments may also undertake certain offshore borrowing (two-step loans) through the MoF after obtaining approval from the Ministry of Home Affairs.¹⁴

The government is implementing a comprehensive budget-reporting framework, whereby regions will have to report bi-annually on budget realisation. Regarding budget coordination, central and local governments must undertake the synchronisation of planning and budgeting based on the National Development and Planning System Law No. 25/2005. According to commentators, further progress is needed in the standardisation of accounting systems, and fiscal management capabilities in the regions need to be enhanced -- these vary widely from region to region. Some regional governments are still using their own standards, but in June 2005 the BPK released accounting standards for all levels of government; these should be rolled out to local governments in the near term. In addition, all levels of government should now start compiling data in agreement with a classification that broadly follows the IMF Government Financial Statistics Manual 2001 (GFS 2001). According to some commentators, the switchover to GFS 2001 should be fully implemented by January 2006.¹⁵

Relations between government and public sector agencies

Government relations with the central bank -- Bank Indonesia (BI) -- are governed by Central Bank Act (CBA, Law No. 23/1999) and amendments to the CBA as established by BI Law No. 3/2004, which give the central bank legal independence. The CBA clearly establishes the responsibilities of BI and proscribes government interference in the conduct of monetary policy. The only overlap in the government's operations and those of the central bank occur in the issuance of bonds, and the holding of government deposits.

Legislative changes went into effect in 2003 that affect the government's relations with state-owned enterprises (SOEs). In May 2002, the DPR passed a new law that places SOEs under higher levels of supervision. The law simplifies the corporate structure of SOEs, clarifies the economic requirements for privatisation and restructuring, and requires that each SOE have at least three different internal supervisory agencies. In the past, commentators have argued that proper enforcement of the State Enterprises Law No. 19/2003 would make it harder for political parties and government officials to use SOEs as "cash cows" for political or personal gain.¹⁶ On 3 May 2005, the president issued Presidential Decree No. 8/2005 on the appointment of boards for state-owned enterprises (SOEs). The new decree regulates the selection process of SOE executives based on merit, skill, professionalism, and integrity, as well as the transparency and accountability of the process. The decree establishes an assessment team for SOE managers consisting of the president, vice-president, the state minister for state administration, the state minister for SOEs, the cabinet secretary, the chief of the National Intelligence Agency (BIN), and other relevant technical ministers.

Article 71 of the State Enterprises Law states that the audit of SOEs financial statements will be undertaken by external private auditors (public accountants) appointed by the State Ministry for State Enterprises. In practice, this would remove state-owned enterprises from financial audits by the BPK, and commentators feel that this will reduce the transparency of the financial management of state-owned enterprises.¹⁷ Article 71 also appears to conflict with Article 30 of Law No. 17/2003 on State Finance, which states that the financial statements audited by the BPK will "append the financial statements of state enterprises and other bodies". Furthermore, Article 55 of the State Treasury Law No. 1/2004 states that the financial statement issued by the central government will include "a synopsis of the financial statements of state enterprises."

The sale by the government of SOEs to private investors has been an important step for the government to promote private investment and to improve the efficiency, transparency, public accountability and corporate governance of

the country's SOEs. Since 1997, 17 SOEs have been privatised in part or in full.¹⁸ In addition, the government, through the Indonesian Bank Restructuring Agency (IBRA), has sold its stakes in certain non-SOE entities and assets. According to the government, there were no plans to conduct major privatisations during 2005, but that it may privatise certain remaining SOEs in the near term.¹⁹

Government involvement in the private sector

Until recently, the Indonesian government retained a considerable presence in the private sector, mostly as a result of the bank rescue during the 1997-98 financial crisis, when the government recapitalised the banking sector and thereby acquired 43 billion US dollars' worth of bank assets. The government had been holding these assets through IBRA and had been trying to sell them to private investors for almost four years.²⁰ Under a new plan agreed in 2004, the outstanding emergency loans extended under BI's emergency bank liquidity programme (BLBI) will be replaced by government securities. Upon the closure of IBRA at the end of its five-year mandate in February 2004, the government established PT Perusahaan Pengelola Aset (PPA), a state-owned management company, to hold and manage the remaining assets previously owned by IBRA and not subject to ownership claims.²¹

The government also has private sector holdings through private charitable/non-profit organisations, commonly known as 'foundations' or *yayasan*. Segments of the public sector, particularly the Indonesian Armed Forces (TNI) and the Indonesian National Police (POLRI), reportedly control over 250 businesses valued at three billion US dollars through an opaque network of *yayasan*. Previously, these *yayasan* did not have the status of legal entities; such status was only established with the enactment of the Foundations Law No. 16/2001.²² Attempts have also been made to audit the TNI's business interests, but these enterprises, which may generate as much as 70% of the military's expenditures, remain off budget. The Armed Forces Law No. 34/2004 enacted in September 2004 states that all off-budget businesses from the armed forces must be transferred to the government within a time frame of five years. Commentators judged that this process has been slow, and in general the accountability of *yayasan* remains weak because the government's implementing regulations relating to the Foundations Law have still to be drafted, and the references to taxation in the law itself are vague.²³

There should be a clear legal and administrative framework for fiscal management

Legal framework for budgetary activities

The State Finance Law No. 17/2003 is the main piece of legislation that determines procedures and coordination of budgetary activities. It is the first law that provides for a comprehensive framework for the management of public finances since Indonesia's independence. As such, it is considered a milestone in the promotion of consistency, transparency and accountability.

Several elements of the legal framework have been clarified. The law provides a comprehensive definition of "state finance" and outlines the general terms for the management of state finances. Also, the legislation clearly states that the president holds full authority for the management of state finances, a role that he can in turn delegate to the minister of finance, other ministers/chairmen of institutions, and governors, regents, and heads of local governments. In addition, the law stipulates a clear division of roles -- at both the national and regional level -- in the processes of budget drafting, deliberation, approval, implementation, and accountability. It also provides for performance-based budgeting.

The State Treasury Law, in turn, provides rulings on how state funds, assets and debts should be managed by government officials both at the central government and local administrations. There is also a new functional budget classification system that seeks to unify the development and recurrent budgets. Some commentators have noted,

however, that the government is at the critical stage of implementing these laws, and therefore it is too early to judge whether the legal framework and the intended actions will prove successful.²⁴

Legal framework for taxation

Recent initiatives designed to assist taxpayers and increase tax revenues include simplified VAT audits, refunds for taxpayers who file accurate returns and various reforms designed to improve the quality of taxpayer services, including improving access to information and adopting a taxpayer bill of rights and a tax officer code of ethics. To improve tax collection, the government has gradually introduced measures to ensure that all persons and corporations with income levels above the non-taxable income level have taxpayer identification numbers (NPWP). A database for taxpayer information including income, property and vehicle registration information is being developed, alongside an online network in cooperation with other institutions. The government has sent notices to potential taxpayers to encourage registration; if recipients do not register, they could be subject to higher tax rates than those applicable to registered taxpayers.

Traditionally, Indonesia's tax offices have been organised by the type of tax. In June 2002, the first Large Taxpayers' Office (LTO) opened in Jakarta under the purview of the Directorate General for Taxation in the MoF. The office focuses on processing the tax statements of the largest taxpayers and aims to provide open, transparent, and accountable services to large taxpayers. Significantly, under this system one person is responsible for all taxes from a given company or individual. This system is expanding, by registering more taxpayers and opening new LTOs in a number of regions. A Medium Taxpayers Office (MTO) and a Small Taxpayers Office (STO) started operations in Jakarta as of mid-2005. To reduce the likelihood of corruption, this new tax system thoroughly screens officials and offers relatively high salaries. Except for some STOs, transactions will be fully computerised such that taxpayers can do most of the work online. The STO operates both online and manual systems, owing to the inability of some taxpayers to use online facilities. The intention is to roll out these offices to cover all the regions by 2008.²⁵

Tax collection remains inefficient, especially when compared with tax systems in neighbouring countries. According to a recent study by Transparency International-Indonesia, the tax department is perceived as the most corrupt institution within the public service.²⁶ However, steps have been taken to improve the transparency and efficiency of the tax collection system. There are two routes for tax complaints: the Office of Inspector General and the independent National Ombudsman Commission. Concern remains over the suitability of the current arrangements, because the Inspector General is internal to the MoF, while the Ombudsman has no power to sanction tax officials and can only issue recommendations to the tax department. Additionally, the Tax Tribunal holds court hearings in public and is placed under the supervision of the State Administrative Court (PTUN). Decisions issued by the tribunal are final and binding. A code of ethics for tax collectors has been produced, and a special division within the MoF's Office of Inspector General (Investigations Unit) has been set up to deal with violations of the code of ethics, which can recommend criminal investigations and/or sanctions to the MoF.

A package of five bills to revamp the tax system is currently under scrutiny at the DPR; it includes three tax laws (income tax, value-added tax (VAT) and luxury tax, and tax administration), and one customs and one excise law. Although the government aims to provide incentives for increased investment, employment and more efficient use of resources, a number of commentators pointed to concerns within the business community that the three tax law drafts need significant revisions, as they have several inadequacies and fail to address the imbalance between tax auditors' powers and taxpayer rights. Originally planned for implementation in early 2006, the delay these concerns have caused and the redrafting process mean that the legislation is unlikely to be ready before 2007.²⁷

Local tax and levies are regulated by Regional Taxes and Levies Law No. 34/2000 and Government Regulation No. 65/2001 and No. 66/2001. The levy of regional taxes, duties, fees, and charges has been complicated by Indonesia's decentralisation process. Law No. 34/2000 authorises local governments to create new taxes, fees, and levies subject only to undefined principles. The decentralisation programme has increased the importance of shared revenues. The

most important factor was the inclusion of oil and gas revenues and personal income tax in the taxes to be shared. For each of the shared taxes, the province receives a minor part, whereas the bulk of the revenues go to local governments.

While no systematic study of these taxes has been made, evidence suggests that both legal and illegal taxes have proliferated across the country, particularly along trade routes.²⁸ The central government has identified at least 100 “problematic” regulations of over 3,000 reviewed, but so far it has not abolished any of these, instead asking local governments to reconsider them.²⁹ The amendments to the Regional Autonomy Law and the Fiscal Balancing Law have partially addressed this shortcoming. However, while there is progress towards legal clarification, implementation and enforcement remain critical areas in order to overhaul and streamline fiscal coordination. By October 2005, the MoF had issued recommendations for the revocation of a total of 601 Regional Government Regulations (PERDAs) by the Ministry of Home Affairs. The Ministry of Home Affairs revoked 449 PERDAs on the basis of these recommendations and others received from line ministries and governors.³⁰

Much of the confusion over what the regions can tax has been clarified. Instead of having negative lists as in the previous law, there is now a positive list of items that the regions can tax. Also, in contrast to the previous situation whereby if the central government failed to disagree within 30 days the new regional tax request became law, now these requests have to obtain MoF approval before they can be enacted and enforced. There is also a system in place whereby regions lose out on benefits if they do not comply with government laws or provide timely information to the government.³¹

Ethical standards for public servants

Ethical standards for public servants are explicitly stated in the laws of major governmental institutions, including BI and the Large Taxpayers’ Office. A Code of Conduct, with its corresponding Code of Conduct Committee, has been established within the Office of the National Ombudsman. Lack of enforcement and monitoring remain a serious concern. The World Bank has been assisting with financing for a governance programme to help Indonesia with the structural progress needed to reduce corruption and restore integrity in the public sector. The Yudhoyono administration has made governance a priority and a number of high profile cases are in process, but there continue to be concerns with the structural nature of corruption and measures needed to tackle it.

The government has gone ahead with plans to integrate the functions of the Independent Commission for the Audit of the Wealth of State Officials (KPKPN) into an anti-corruption commission in a manner that preserves the integrity of the wealth declaration process. As mandated by Law No. 30/2002, the Corruption Eradication Commission (KPK), established in December 2003, now has a special anti-corruption court that started operations in 2004. The wealth reports, however, are no longer made available to the public owing to legal technicalities that could potentially expose the KPK to prosecution.

The State Finance Law has also strengthened the standards for public servants. In particular, Article 35 makes government officials personally responsible for state funds under their control. If properly enforced, officials will face jail terms for embezzlement and mismanagement, and they will be forced to personally reimburse the state for any misused or embezzled public money. All civil servants are subject to equal punishment for the same fiscal crime, regardless of rank.

2. PUBLIC AVAILABILITY OF INFORMATION



Enacted

The public should be provided with full information on the past, current, and projected fiscal activity of government.

In 2005, the routine and development expenditures were combined into a single account, achieving one of the main thrusts of state budgetary reorganisation within the MoF. The 2003 *Report of the Conversion Guidance Team for Changes in Format of the State Budget* explains in detail the changes to the format of the state budget, where expenditures are now classified according to core administrative functions and public service activities.³²

Central government operations

Data on central government operations cover all budgetary central governments units, including ministries, departments and non-ministerial institutions. The operations of the extra budgetary units of central government are not included. The annual *Semester Report on the State Budget* (Laporan Realisasi APBN Semester I) publishes data for the first six months of the current fiscal year, showing revenue and expenditure details of budgetary central government.³³ That document is published in the seventh month of the current fiscal year. The annual *Supplementary Budget Report* (Laporan APBN-Perubahan) publishes annual provisional data for expenditure realisations of the current fiscal year, and it is published at the end of the fiscal year. A brief review of the performance of the current year's budget is available on BI's Investor Information and Enquiries (IIE) website.³⁴ Summary information on the budget for the following year, including macroeconomic assumptions and future government policies affecting government revenues, is also publicly available.

Transparency in financial management has benefited from the State Finance Law, which covers all state funds in all state institutions. It requires the government to submit reports of budget implementation for the first half of the current year no later than July. In addition, the president must deliver an accountability speech on the status of the state budget's implementation, audited by the BPK, six months after the current fiscal year ends. Similarly, governors, mayors and regents must deliver accountability speeches at local legislatures six months after the current fiscal year ends. The accountability speech requirements will take effect starting in 2006.

A major obstacle to fiscal transparency in Indonesia is the opacity of off-budget accounts -- mostly non-tax revenues collected by government and government-linked institutions that, in general, are not publicly reported. Some efforts have been made over the past three years to make these funds more transparent and to bring them into the budget process. In its latest audit report (published in September 2005), the BPK identified over 1,000 off-budget accounts held by numerous government ministries and institutions.³⁵ As such, it is unclear how much progress has been achieved despite commitments to bring them on budget. The fact that so many off budget accounts are now being audited and are open to greater scrutiny should increase pressure on the institutions involved to bring them on budget. However, uncertainty remains about the total number of off-budget funds that various ministries and state agencies retain. In addition, although the Foundations Law and the State Audit Law limit the legal authority of the BPK to audit *yayasan*, the BPK seems prepared to conduct audits whenever it is deemed necessary.³⁶

The programme of performance audits of the 144 SOEs under the central government has now largely been concluded. The question now is what should be the follow-up. The audits of key state-owned enterprises (Garuda, Pelindo II, Jasa Marga, Telkom, PT PN-IV) were completed in 2002, and the results published and corrective actions

formulated. These audits, conducted by the State Development Audit Agency (BKPK) -- the government's internal auditing agency -- have been criticised by the State Audit Agency (BPK) for inattention to possible financial irregularities in the SOEs' financial reports.³⁷ The State Finance Law contains several positive measures to improve the transparency of the SOE sector. Under the law, the BPK will audit all SOEs, including those under the central government and those under regional administrations. All SOEs operating under the central government are required to attach their financial reports to the government's budget accountability report, which must be submitted to the DPR by the president.

Public sector operations

Data are disseminated on general government operations, and cover the operations of the budgetary central government, the provincial and local governments. Data on social security funds and extra-budgetary funds are not included. Data breakdown includes revenue; expenditure; the deficit/surplus; and financing, broken down by currency into foreign-currency financing, and domestic-currency financing. The data for central government and the provincial governments are based on the accounting records of actual outturns for all levels of government (not all local governments are included). The annual *Financial Report and State Budget* (Nota Keuangan dan RAPBN), published ten months after the end of the reference year, publishes annual consolidated data for the various elements of general government on revenue; expenditure, the deficit/surplus; and financing, broken down into foreign-currency financing, and domestic-currency financing.

With the implementation of fiscal decentralisation, the quality of sub-national government fiscal data has become a central concern for effective and transparent fiscal management. Currently, the central government requires the regions to submit financial reports. These are submitted to the MoF, including the budget, budget implementation reports, and final accounts. The MoF is working to improve its Regional Financial Information System (SIKD) to allow for online submission and rely less on a paper-based system. The MoF then publishes summary financial data on its website.³⁸

Progress in establishing an effective reporting system for regional finances has been slow. One key problem is that the central government has hitherto used a GFS 1986-compliant system, while local governments compiled data on a non-standardised basis. In 2005, the central government started a process to switch to GFS 2001, and has drafted regulations on Local Government Financial Management such that budget classification and accounting rules follow the provisions established by Government Regulation No. 24/2005 on the Government Accounting Standard.

Under the recent Decree No. 29/2002 on Local Government Budgets, the fiscal performance of local governments should be evaluated based on procurement standard examinations, work performance indicators, and cost standards. SOEs operating under regional governments must attach their financial reports to the local government's budget accountability report, which will then be tabled at the local legislature. Performance budgeting has gradually been introduced; it is expected that performance indicators will increase transparency and accountability in regional fiscal planning in the medium term. However, it will require some time before regional governments are familiar with them.³⁹

A commitment should be made to the timely publication of fiscal information.

Indonesia subscribes to the IMF Special Data Dissemination Standard (SDDS) and complies with the standards for coverage, periodicity, and timeliness of reporting central government and public sector data.⁴⁰ Given the introduction of the GFS 2001 classification and the new regulations on the Government Accounting Standard, it is expected that a long transition period will be required to achieve full implementation. Indonesia has taken a flexibility option for the timeliness of SDDS data on general government operations.

Debt reporting

Information on government debt and financial assets is published with the annual budget. Financial assets are also reported by the central bank, and information on government debt, including loans, interest, debt outstanding, maturity dates, and closing dates is covered in the government annual budget report. Projected repayments of short-term debt are published periodically. In 2005, the MoF published a consolidated balance sheet (for fiscal year 2004) for the first time.⁴¹ BI publishes information on its debt management on behalf of the government, particularly on external debt. This information is available in Bahasa Indonesia and English on BI's website.⁴²

Advance release calendars

The Indonesian government publishes an advance release calendar giving a one-quarter's notice of the expected release dates of public sector data. The same applies to central government operations data and data relating to central government debt. In all three cases, notification of the exact release dates is given one week in advance and disseminated via the IMF's Dissemination Standards Bulletin Board.

3. OPEN BUDGET PREPARATION, EXECUTION, AND REPORTING

●●●● Compliance in progress

Fiscal policy objectives, macroeconomic framework, and risks

Fiscal policy objectives

Before the passage of the State Finance Law, Indonesia's central government prepared two documents outlining medium- and short-term fiscal policy objectives. The National Development Plan (Propenas), which replaced the government's traditional five-year economic plan (Repelita), was a five-year forecast outlining government priorities and objectives in all sectors. Last published for the 2001-2005 period, the Propenas was considered to be an improvement over the Repelita because it focused more closely on fiscal policies and objectives, not just on the macroeconomic framework.⁴³ The other fiscal document was the Annual Development Plan (Repeta), a three-year rolling forecast prepared annually. The Repeta had been described as an important step towards transparency and accountability because stakeholders and the legislature can now hold the government accountable for deviations from budgetary and deficit targets.⁴⁴

The Yudhoyono administration has replaced both the Propenas and the Repeta with two new documents: the National Medium-Term Development Plan 2004-2009 (RPJMN, Presidential Regulation No. 7/2005) and the annual Government Work Plan (RKP, Rencana Kerja Pemerintah). The RPJMN provides medium-term goals for the socio-economic development of Indonesia; it places decentralisation and regional autonomy as priority areas.⁴⁵ The RPJMN sets six policy directions: to clarify the division of authority between the levels of governance; encourage interregional cooperation in the context of enhancing public services; arrange the institutions of regional governments to make them more proportional and professional in accordance with their needs; prepare a regional government apparatus that is qualified based upon standards of competence; increase the financial capacity of the regional government; and arrange new autonomous regions.

The RKP is an annual plan for the implementation of development objectives, and serves as a guideline for the formulation of the State Budget Bill (APBN) by including specific measures and targets that aim to fulfil the RPJMN's mission.⁴⁶ The government presents the APBN for the next fiscal year along with its Financial Note Document. The APBN is compiled based on each year's RKP -- which is also presented to the Budget Committee of the DPR for discussion.

The government has gradually introduced a medium-term expenditure framework (MTEF), as means to provide economic guidance over a three-year period. Although the MTEF system is largely in place, Indonesia is still not moving to a three-year budgeting framework.

Macroeconomic framework

The macroeconomic assumptions underlying the budget are assessed in meetings between Bappenas, the MoF, and BI. The budget mentions some of these assumptions explicitly, including economic growth, foreign exchange, interest, and inflation rates, the oil price, and crude oil production.⁴⁷ Using these and other assumptions, a "base case" scenario is created and published with the budget documentation.

The World Bank had previously noted that macroeconomic models are not transparent to the public. In addition, commentators pointed out that since there is no binding agreement between the legislature and the government on fiscal policy prior to the detailed budget, discussions on macroeconomic assumptions continue throughout the budget formulation process, with the legislature sometimes changing revenue estimates.⁴⁸ Since the departure of the administration of former President Megawati Soekarnoputri, the macroeconomic assumptions of the original 2005 budget (approved during Megawati's administration) have been changed twice, given that these assumptions reflected the priorities of the former administration and also to take into account the financial impact of the December 2004 earthquake and tsunami in northwest Sumatra. On March 2005, the government of President Yudhoyono submitted the First Proposed Budget Revisions to the DPR, which were approved on 11 July 2005. On 15 August 2005, the government submitted the Second Proposed Budget Revisions to change a number of macroeconomic assumptions, including the international price of oil and the exchange rate value; these revisions were approved on 20 September 2005. On 16 August 2005, the proposed 2006 APBN was submitted to the DPR and approved in late October, in compliance with public finance legislation.

Fiscal risks

The macroeconomic assumptions used in preparing the budget are stress-tested for changes in variables. These fiscal risks are presented to the legislature as working papers, but according to MoF officials, they are not extensively discussed.⁴⁹ The most significant fiscal risk scenarios -- those involving changes in interest rates and oil prices -- are published in the final budget text.

An important source of fiscal risk is the significant off-budget accounts and contingent liabilities the Indonesian government has accumulated since the 1997-98 crisis. The latter stem primarily from those guarantees to protect depositors and creditors in the banking system, guarantee schemes to the private sector to restore the flow of credit, sovereign guarantees to private infrastructure providers, and pension payments obligations. According to commentators, there has been some progress over the past year in documenting and reporting off-budget accounts and contingent liabilities. However, a comprehensive stocktaking exercise should be carried out to understand the size of the problem, and greater efforts should be made to bring off-budget expenditure into the APBN.⁵⁰

Contingent liabilities are not reported in the budget document, but some of these liabilities can be found separately in relevant documents such as the balance sheet of the national electricity utility (PLN) and the (now wound up) IBRA balance sheet. The central bank also publishes the amounts of bank recapitalisation bonds outstanding. However, no analysis has been made public showing the total amount of contingent liabilities, the likelihood that these will become real liabilities, or the budgetary impact of such an event. Some calculations of pension fund contingent liabilities have been made, but there is nothing systematic.

After almost five years, in July 2003, the DPR finally approved an agreement between the government and BI to settle accounts arising from the emergency loans extended under the BLBI, established during the crisis in January 1998. The resolution should place no additional financial burden on the state budget or on BI, where the outstanding BLBI loans are to be replaced by government securities with payment derived from the surplus of BI, after meeting criteria for BI's capital to monetary liabilities ratio. In addition, the Indonesia Deposit Insurance Corporation, which started operations in September 2005, has replaced the blanket guarantee system with a regular deposit insurance scheme administered by the deposit insurance agency. In contrast to the previous BLBI scheme, the central bank's lender of last resort facility is now only made available to address systemic problems and on the basis of constructive ambiguity.

Fiscal sustainability

BI has recently published a series of documents on fiscal sustainability in which it discusses the government's fiscal sustainability targets, bond issuance, and measures to keep the debt burden under control. These documents are

available on the central bank's Investor Information and Enquiries (IIE) website.⁵¹ The State Budget Performance and the Government Debt Management reports elaborate on the actual realisations of quarterly revenues, expenditures and the historical evolution of debt repayments. A Debt Strategy document was published in 2005, which presents the general strategy on managing government debt for 2006-09. Quantitative exercises on fiscal sustainability are not publicly available, although the State Budget Performance reports have sometimes covered them in qualitative terms. For example, the government has released information on the contingent liabilities that may arise as part of the new deposit insurance scheme, the liquidity facility to cover any shortfall in servicing liabilities to a restructured electricity generation project, and the guarantees to the state-owned airline in respect of a convertible bond and a standby letter of credit.

In view of the significant fiscal cost of maintaining fuel subsidies in 2004 and this year, the government has provided information on the costs and changes to the way the subsidies are assigned. It is estimated that last year's fuel subsidies cost the state more than seven billion US dollars, thus accounting for about a third of all central government spending. As a result, the fuel price compensation programme will be implemented through a change from commodity-based subsidies to direct cash subsidies for about 16 million low-income households (about 30% of all households in Indonesia). The subsidies commenced in October 2005, with the provision of cash aid until December 2005. The programme will continue in 2006 after monitoring and evaluation to enhance its operation. In the longer term, the government expects the direct cash subsidy programme to be developed further into conditional cash transfers.⁵²

The budget discloses information on tax exemptions and tax estimates in terms of net value, but statements on quasi-fiscal activities (QFAs) are not included.

Budget presentation

Data reporting

Each year the executive prepares the budget estimates for presentation to the DPR. The president, with the assistance of the minister of finance and the Bappenas, is responsible for the final preparation of the estimates prior to parliamentary approval. The MoF is responsible for the preparation and drafting of the estimates. In practice, the MoF's Directorate General for the Budget examines and prepares the estimates by analysing all proposals of the executive agencies (ministries/institutions), and ensures that specified budget ceilings are not exceeded. The MoF then prepares the APBN, which is debated and approved in parliament. Ministries prepare their activity schedules and project schedules for approval by the MoF, and Bappenas in the case of development programmes.

Aggregate budgetary information and outturns for the preceding two fiscal years are presented to the legislature as an accompaniment to the financial note of the government. Budgetary information on SOEs and on regional governments is available, although the latter must be requested from individual regions.

Data classification for revenues, expenditures, financing and debt will gradually be moved to a standard that is broadly compatible with GFS 2001. Budgetary funds are presented by sector, sub-sector, programme, and project/activity. Expenditure is also classified by expenditure type. Objectives of major government programmes are included in the budget and are presented by sector. Statements of objectives are described in more detail in a supplementary budget document called *Unit 3A*. The budget also details the central government's overall balance. In addition, the State Development Audit Agency (BPKP) regularly audits government agencies with a view to identifying any additional non-consolidated funds.

The government of Indonesia declared in the March 2003 Letter of Intent to the IMF that developing an effective regional budget reporting system remains a priority. There is to be a strict budget-reporting framework, whereby

regions will have to report bi-annually on budget realisation. To ensure timely data submission, sanctions such as the postponement of transfers will be imposed on regions that fail to comply with the reporting requirements.⁵³

Budget execution and monitoring

The restructuring of the MoF involved, *inter alia*, the rationalisation of budget preparation and execution functions. Regional budget reporting is also improving. Overall, however, some commentators judged that there are still several shortcomings in terms of data submission (which causes reporting delays) and delays in outputs (which make it difficult to analyse budget realisation and impact).⁵⁴ The decentralisation laws No. 22/1999 and No. 25/1999 introduced the concept of performance budgeting for the regions. The performance-based budgets should, in theory, increase transparency and accountability in regional fiscal planning. However, it will require some time before regional governments are familiar with them. The annual accountability report of the head of the region to the district level House of Representatives (DPRD II) provides some useful information regarding budget monitoring. However, this document is not comprehensive in general for evaluating budget implementation and results achieved.

The State Budget Performance reports include quarterly information on total expenditure realisations in value and as a percentage of the funds in each budget, broken down into central government expenditures and transfers to regions. Realised central government expenditures are further broken down into subsidies, personnel expenditures, interest payments, material expenditures, social expenditures, capital expenditures and others.⁵⁵ The government also presents current realisations of the budget to the cabinet every month. These data are not publicly available and are intended for government officers only.

In 2005, the routine and development expenditures were combined into a single account, where expenditures are now classified according to core administrative functions and public service activities. This change has resolved serious concerns about the lack of unified oversight or control over budget preparation, and the risk of duplication of recurrent spending and diversion of budgetary resources to unintended purposes. On the other hand, the substantial off-budget funding still reduces the scope for public scrutiny. Budget allocations had typically been based on an implicit assumption that departments would raise their own funds off budget, something that was pervasive in the case of the military and police.⁵⁶

Until recently, the consolidated financial statements presented to parliament were not available until two years after the end of the fiscal year. The government has been trying to reduce this time to no more than twelve months, with the ultimate goal of reaching the OECD standard of six months. Importantly, the MoF has now established a 'Treasury Single Account', which has allowed Indonesia to consolidate its government accounts to compile a fiscal year 2004 balance sheet, cash flow statement, and a budget realisation report for the first time -- an important milestone for transparency in public finances and a boost for measures to combat corruption.⁵⁷

Accounting basis

In 2005, the BPK and the central government drafted Government Regulation No. 24/2005 on the Government Accounting Standard.⁵⁸ Previously, a number of financial accounting standards coexisted. This led the government to establish in 2002 the Government Accounting Standards Committee to overhaul the government's accounting system, to synchronise central and local government accounting and to ensure that they converge with international standards of accounting issued by the International Federation of Accountants (IFAC).

According to the committee's exposure drafts, Indonesia's central, provincial, and local governments will replace the single-entry, cash-basis accounting method hitherto in use with the double-entry accounting on a modified accrual basis established by the Government Accounting Standard. All accounts will also be made consistent with GFS 2001.

Work on accounting reform and implementation remains a concern at the local government level. As stipulated in Law No. 25/1999, the heads of Indonesia's districts and municipalities are responsible for public sector accounting, and local governments have so far had the freedom to develop their own systems and procedures for financial reporting. Some commentators have suggested that at present many local governments remain unprepared for adopting the Government Accounting Standard and the GFS 2001 classification, and further international assistance is needed to develop technical expertise and fund IT facilities.⁵⁹

Procurement and employment

Presidential Decree (Keppres) No. 18/2000 governs the technical guidelines for government procurement of goods and services. A revised Presidential Decree on Procurement No. 80/2003 was issued in November 2003, which tightens procedures for procurement in the public sector. This decree encompassed the establishment of a National Procurement Office (NPO), which during 2005 was still in the process of being set up. The new body will be charged with policy-making in the area of procurement, disbursement settlement, and human resource reforms.⁶⁰ In addition, the pilot project of National Electronic Procurement Government of Indonesia (NePGI) is an e-Procurement application system designed for government procurement of goods and services, in order to help government agencies have a more transparent and efficient procurement process.

The government plans to submit to the legislature a law replacing Presidential Decree No. 18/2000 on public sector procurement, prescribing penalties for corruption in the procurement process. In addition, the draft law will allow companies to bid for government contracts without having to be accredited by the Indonesian Chamber of Commerce (Kadin) or its affiliated associations. Medium- to large-scale enterprises would be forbidden from bidding for projects reserved for small businesses (projects worth less than 50 billion rupiah).⁶¹

Regulations for employment practices exist and cover the recruitment process, pension plans and career plans. The organisation of the civil service system is established in Law No. 8/1974 and its revision in Law No. 43/1999. The civil service is managed by a Civil Service Board (BKN, Badan Kepegawaian Negara), which keeps all records, and has to give approval to all appointments above a certain rank.

Fiscal reporting

Government authorities make regular reports on the implementation of the central government's fiscal programme, both to the legislature and the public. The annual *Supplementary Budget Report* publishes annual provisional data for expenditure realisations of the current fiscal year, and it is published at the end of the fiscal year. Monthly financial accounting reports are published internally. Reporting of sub-national fiscal activities is only presented to the regional parliaments. The MoF has set up a web-based regional financial information database with extensive budgetary information for each region, but according to some commentators little analysis is carried out on these data.⁶²

According to the constitution, the DPR plays a key role in budget reporting. The DPR Budgetary Commission oversees the revision statement of the approved budget by mid-year to assess the feasibility of budget implementation in light of any changes in the macroeconomic assumptions. In addition, it receives copies of the *Supplementary Budget Report* and the BPK's audited final accounts for review. The DPR's primary role, however, has traditionally been in budget formulation, with little formal provision for oversight by budgetary committees. As such, the role of the parliament as the institution with public responsibility for financial oversight is not widely understood in the country.

4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY



Enacted

Data quality standards

Fiscal data are compiled and disseminated under the terms and conditions of the State Budget Law, the Supplementary State Budget Law, and Law on the Audited State Budget. The classification codes used to convert the accounting records to the revenue and expenditure categories used in the data on central government operations are published in *Codes for Expenditure* (MAK) and *Codes for Revenue* (MAP) Circular No. SE-36/A/2003.

Inadequate coordination of budget monitoring and record-keeping has resulted in duplication and fragmented financial information systems. The regions are expected to implement budget management and accountability in compliance with performance-based budgeting and government accounting standards as established by the Audit of State Financial Management and Accountability Law No. 15/2004. Data quality is expected to improve gradually over the medium term as the new Government Accounting Standard is rolled out to regional governments.⁶³

Public activities are assessed through ad hoc sectoral and regular programme reviews. The annual *Semester Report on the State Budget* publishes data for the first six months of the current fiscal year, showing revenue and expenditure details by economic classification. The annual *Supplementary Budget Report* publishes annual provisional data for expenditure realisations of the current fiscal year.

Independent scrutiny of fiscal information

Independent Audit

The State Audit Agency (BPK, *Badan Pemeriksa Keuangan*) is Indonesia's 'high state' auditing institution, which is partially independent from the government. The BPK is funded from resources of the annual budget. For any special audits, other than those stated in its annual audit plan -- such as audits of BI and IBRA -- it obtains special budget allocations from the government through the MoF. Proposed changes to the Audit Board Law No. 5/1973 and the State Audit Law No. 15/2004 should provide the BPK with full independence -- that is, independent of budgetary control from the government.⁶⁴

The BPK's mission is to examine the accountability of state finances and to disclose these findings to the DPR. The BPK audits have the following objectives: to assess the fairness of the revenue budget and the reporting of actual tax revenues; to ascertain the existence of sound administration that complies with laws and regulations; and to assess the application of tax returns and penalties. As such, the BPK is not responsible for the monitoring of budget implementation; this is the responsibility of the executive. In charge of auditing all state finances, the BPK also audits SOEs and firms owned by regional governments. The agency also monitors central and regional government budgetary implementation. Special audits are performed for activities suspected to be fraudulent or criminal, and cases of abuse and misuse are noted and passed onto the Attorney General's Office (AGO) and the KPK for further action. Although the onus is on these latter institutions to pursue criminal investigations, some commentators noted that these have become much more effective since the formation of the Coordinating Team for Combating Corruption (Timastipikor) in April 2005. Timastipikor has pooled the resources of the BPK, the police, the AGO, the Center for Financial Transaction Analysis and Reporting (PPATK) and others to investigate criminal activities.⁶⁵

The *State Budget Financial Accounting Report* sets out the BPK's findings and is submitted to the DPR for parliamentary review.⁶⁶ There is still ambiguity on whether the Foundations Law No. 16/2001 (as amended) allows the BPK to audit, or review internal audits, of important *yayasan* controlled by, for instance, the TNI, the police and BI. Article 52 of the Foundations Law stipulates that foundations receiving (financial and other) aid from the state must be audited by public accountants. However, Article 3 paragraph 2 of the State Audit Law 15/2004 states that "in case law audits (of government and government related bodies and agencies) are undertaken by public accountants, their audit reports shall be submitted to the BPK and be made public".

Although the BPK is the national auditing body, the State Development Audit Agency (BPKP) -- the internal audit agency created by presidential decree during the Suharto administration -- also carries out audits on internal controls and reports directly to the president. The State Audit Law envisaged the absorption of the BPKP by the BPK, but this has not yet taken place. The line between external and internal audit is blurred, and with it, the responsibilities of the BPK and BPKP. The BPKP's status as a government agency has raised concerns over its independence in auditing public finances, SOEs, and foreign-funded projects. Some commentators judged there has been no real progress in clarifying the role of the BPKP and its relationship with the BPK. There is still no mechanism for cooperation or contact between the two agencies. The BPK has largely remained understaffed and under-resourced, while the BPKP employs highly qualified auditors that are not efficiently utilised. Several plans have been put forward to improve cooperation. For example, BPKP auditors could be gradually transferred to work as internal auditors in the various line ministries, or the BPK should use the findings reported in BPKP audits to produce synergy, minimise its own need for information, and reduce overlaps. Overall, however, such cooperation appears to pose political problems.⁶⁷

With regard to internal auditing, each ministry and institution has an Inspector General who carries out internal audit functions. All transactions and financial records are audited before the accounts are sent to the MoF's Inspector General, who produces the annual financial statements. In carrying out the audit, each Inspector General examines expenditures for compliance with predetermined criteria, including the efficiency of operations and compliance with rules and regulations. All audit reports are submitted to the BPK and the BPKP. The MoF's Inspector General has established an internal investigations unit to investigate allegations of misconduct and corruption by officials within its ranks. The government is keen to promote this as a means of increasing the integrity of its staff.⁶⁸

National Statistics Agency

The Indonesian National Statistics Office (BPS) is required by law to publish national accounts data as stated in the explanation of Article 5 of the Statistical Law. It is stated explicitly in the Decree of the Director General of the BPS No. 100, 1998. All statistics collected by the BPS are governed by the Statistical Law of Indonesia No. 16/1997, which established the statistical independence of the BPS. Under the law, the BPS has the freedom to determine methodologies, the forms of data collection, and the format and timing of publication of data. The BPS cannot publish, or otherwise make available to any individual or organisation, statistics that would enable the identification of data for any individual or entity. The BPS has statutory independence on technical matters, but does not review fiscal data or assess its quality. This responsibility remains with the MoF.

INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Indonesia between 14 and 17 November 2005:

Ministry of Finance (MoF)

14 November 2005

Saro Edi
Kunta Wibawa
Tity Hernawati

State Budget Planning Division
Tax Revenue Division
Non-tax Revenue Division

17 November 2005

Hekinus Manao
Director
Committee Member

Accounting and Information - Treasury
Government Accounting Standards
Committee

Central Bank of Indonesia

15 November 2005

Charles Joseph
Senior Economist

Economics Research and Monetary
Policy Department

ADDITIONAL INTERVIEWS

14 November 2005

Anwar Nasution
Dr Soekoyo
Director

State Audit Agency (BPK)
State Audit Agency (BPK)

14 November 2005

Rajiv Sondhi
James Sheppard
Senior Financial Management
Specialist
Public Sector Management
Consultant

World Bank
World Bank

15 November 2005

Yougesh Khatri
Resident Representative

IMF

16 November 2005

Dedi Haryadi
Director

Bandung Institute of Governance Studies

NOTES

¹ See the 1945 Constitution of the Republic of Indonesia (unofficial translation) at:

www.ilo.org/public/english/employment/gems/eoo/download/consi.pdf

² See www.indonesia.go.id ; www.dpr.go.id ; www.bpk.go.id ; www.mpr.go.id ; www.dpd.go.id

³ Local governments in each province consist of several regencies (Kabupaten), which are divided into municipalities (Kota), which are further divided into districts (Kecamatan), which are in turn divided into villages.

⁴ Law 22/1999, Article 7.

⁵ Interviews in Indonesia, 14-17 November 2005.

⁶ Interviews in Indonesia, 4-6 October 2004.

⁷ Interviews in Indonesia, 14-17 November 2005. See also IMF, “Indonesia: 2004 Article IV Consultation and Post-Program Monitoring Discussions -- Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion”.

⁸ See ‘Road-Map Departemen Keuangan Tahun 2005-2009’ at: www.roadmap.depkeu.go.id

⁹ Interviews in Indonesia, 14-17 November 2005.

¹⁰ Interviews in Indonesia, 4-6 October 2004.

¹¹ See “Indonesia: 2005 Article IV Consultation and Third Post-Program Monitoring Discussions”, IMF Country Report No. 05/326, September 2005 at: www.imf.org/external/pubs/cat/longres.cfm?sk=18552.0.

¹² Interviews in Indonesia, 4-6 October 2004.

¹³ “Economic Policy Package Pre- and Post-IMF Program”, Coordinating Ministry of Economic Affairs, pp.1-7, 17 September 2003, available at www.ekon.go.id/berita/20030917/20030917_1.shtml

¹⁴ Interviews in Indonesia, 14-17 November 2005. A 3% budget deficit ceiling (set by the State Finance Law) will be imposed on all regions; regions will be evaluated on credit-worthiness criteria and the debt held by regions will be rated; and, crucially, the MoF will not guarantee any regional borrowing.

¹⁵ Interviews in Indonesia, 14-17 November 2005.

¹⁶ “House passes bill on SOEs into law”, *The Jakarta Post*, 28 May 2003.

¹⁷ Interviews in Indonesia, 4-6 October 2004.

¹⁸ Interviews in Indonesia, 4-6 October 2004.

¹⁹ Interviews in Indonesia, 14-17 November 2005.

²⁰ See www.bppn.go.id

²¹ Interviews in Indonesia, 14-17 November 2005.

²² Interviews in Indonesia, 14-17 November 2005. According to the 2001 law, the purpose of establishing a foundation should be for social service, humanity, and religion. However, in many cases the *yayasan* still hold assets or commercial interests as a source of revenue, and expenditures are rarely audited. The *yayasan* were exploited from the 1970s onwards to create a linkage between official state authority and powerful political interests, in which off-budget political funding merged into commercial interests.

²³ Interviews in Indonesia, 14-17 November 2005. The accountability of foundations is regulated by law, with the requirement of annual report publication in local newspapers if the foundation has assets equal to or more than 20 billion rupiah. However, since financial statements are rarely audited, in practice it is difficult to know which *yayasan* have assets above that threshold.

²⁴ Interviews in Indonesia, 14-17 November 2005.

²⁵ Interviews in Indonesia, 14-17 November 2005.

²⁶ Interviews in Indonesia, 14-17 November 2005. See also *the Jakarta Post*, December 10 2004 and:

www.ti.or.id/paper.htm

²⁷ Interviews in Indonesia, 14-17 November 2005.

²⁸ Ilyas Saad, “Indonesia’s Decentralization Policy: The Budget Allocation and its Implications for the Business Environment”, SMERU Working Paper, SMERU Research Institute, London, September 2001.

²⁹ Paul R. Deuster, “Survey of Recent Developments”, *Bulletin of Indonesian Economic Studies*, Vol. 32, No. 1, April 2002, p.11.

³⁰ Interviews in Indonesia, 14-17 November 2005.

³¹ Interviews in Indonesia, 4-6 October 2004.

³² See Laporan Tim Penyusun Pedoman Konversi Perubahan Pormat Anggaran Belanja Negara (in Bahasa Indonesia only).

³³ See www.djapk.depkeu.go.id/APBN/Laporan%20Realisasi%20APBN%20Semester%20I%20TA%202005.pdf

³⁴ See for example Government Policy Programme reports at:

www.bi.go.id/web/en/info+penting/IRU/Policy%20Program

³⁵ See Laporan Hasil Pemeriksaan BPK-RI atas Laporan Keuangan Pemerintah Pusat – Tahun 2004 (in Bahasa Indonesia only) at:

www.bpk.go.id/pemeriksaan/ikhtisar_hapsem/HP%20APBN%202005/HP%20LKPP/index1.html

³⁶ Interviews in Indonesia, 14-17 November 2005.

³⁷ “BPK slams accountants for poor handling of SOE audit”, *The Jakarta Post*, 1 November 2003.

³⁸ See www.depkeu.go.id

³⁹ Interviews in Indonesia, 14-17 November 2005.

⁴⁰ IMF Special Data Dissemination Standard (SDDS) - Indonesia, at

<http://dsbb.imf.org/Applications/web/sddscountrycategorylist/?strcode=IDN>

⁴¹ See Laporan Keuangan Pemerintah Pusat Tahun 2004 (in Bahasa Indonesia only) at:

www.bakun.go.id/modul/donlot/ok.php?idk=438

⁴² See www.bi.go.id

⁴³ Interviews in Indonesia, 19-21 November 2002.

⁴⁴ Interviews in Indonesia, 19-21 November 2002.

⁴⁵ See the National Medium-Term Development Plan 2004-2009 (in Bahasa Indonesia only) at:

www.bappenas.go.id/index.php?module=ContentExpress&func=display&ceid=1984

⁴⁶ See RKP Fiscal Year 2006 (in Bahasa Indonesia only) at:

www.bappenas.go.id/index.php?module=ContentExpress&func=display&ceid=2480

⁴⁷ Available at www.bi.go.id/ie/cat.asp?id=15

⁴⁸ “Indonesia: Selected Fiscal Issues in a New Era”, World Bank Report No.25437-IND, February 2003, p.57.

⁴⁹ Interviews in Indonesia, 19-21 November 2002.

⁵⁰ Interviews in Indonesia, 14-17 November 2005.

⁵¹ See www.bi.go.id/web/en/info+penting/IRU/Fiscal+sustainability/

⁵² Interviews in Indonesia, 14-17 November 2005.

⁵³ “Indonesia: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding”, March 2003 available at www.imf.org/external/np/loi/2003/idn/01/index.htm and interviews in Indonesia, 4-6 October 2004.

⁵⁴ Interviews in Indonesia, 14-17 November 2005.

⁵⁵ See State Budget Performance reports at: www.bi.go.id/web/en/info+penting/IRU/Fiscal+sustainability/

⁵⁶ World Bank, Indonesia, “Combating Corruption In Indonesia, Enhancing Accountability For Development”, November 12, 2003.

⁵⁷ Interviews in Indonesia, 14-17 November 2005. See Laporan Keuangan Pemerintah Pusat Tahun 2004 (in Bahasa Indonesia only) at: www.bakun.go.id/modul/donlot/ok.php?idk=438

⁵⁸ See Pengantar Standar Akuntansi Pemerintahan, Lampiran I & II PP No.24 Tahun 2005 (in Bahasa Indonesia only) at: www.bakun.go.id/modul/donlot/ok.php?idk=390

⁵⁹ Interviews in Indonesia, 14-17 November 2005.

⁶⁰ See “Lembaga *procurement* akan dibentuk 2003”, *Bisnis Indonesia*, 14 November 2002.

⁶¹ “Economic Policy Package Pre- and Post-IMF Program”, Coordinating Ministry of Economic Affairs, pp.1-6, 17 September 2003, available at www.ekon.go.id/berita/20030917/20030917_1.shtml

⁶² Interviews in Indonesia, 4-6 October 2004.

⁶³ Interviews in Indonesia, 14-17 November 2005.

⁶⁴ Interviews in Indonesia, 14-17 November 2005.

⁶⁵ Interviews in Indonesia, 14-17 November 2005. It is worth noting that the PPATK became actively involved in several high-profile cases during 2005, by working in close cooperation with the Timstastipikor. These cases include the uncovering of seven officers from the State Intelligence Agency (BIN) involved in running a counterfeiting operation. The PPATK also made a valuable contribution in October 2005 by tracking down indications of money laundering in the personal accounts of at least 15 senior police officers. This breakthrough was linked to investigations into the Bank BNI scandal and the bribing of police officers in that case.

⁶⁶ See Laporan Hasil Pemeriksaan BPK-RI atas Laporan Keuangan Pemerintah Pusat – Tahun 2004 (in Bahasa Indonesia only) at:

www.bpk.go.id/pemeriksaan/ikhtisar_hapsem/HP%20APBN%202005/HP%20LKPP/index1.html

⁶⁷ Interviews in Indonesia, 14-17 November 2005.

⁶⁸ Interviews in Indonesia, 4-6 October 2004.